

# LEGISLATIVE AUDIT COMMISSION



Review of  
Metropolitan Water Reclamation District  
Of Greater Chicago  
Year Ended December 31, 1997

622 Stratton Office Building  
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**REVIEW: 4074**  
**METROPOLITAN WATER RECLAMATION DISTRICT**  
**OF GREATER CHICAGO**  
**YEAR ENDED DECEMBER 31, 1997**

**FINDINGS/RECOMMENDATIONS - 4**

**NOT ACCEPTED - 1**  
**PARTIALLY ACCEPTED - 1**  
**IMPLEMENTED - 2**

**REPEATED RECOMMENDATIONS - 1**

This review summarizes an audit of the Metropolitan Water Reclamation District of Greater Chicago for the year ended December 31, 1997, filed with the Legislative Audit Commission March 5, 1999. Public Act 89-296, effective August 11, 1995, required the Auditor General to annually conduct a financial and compliance audit of the Metropolitan Water Reclamation District of Greater Chicago (District). The law provides the cost of the audit shall be charged to the District. The auditors performed a financial and compliance audit in accordance with State law and the requirements of the federal Single Audit Act Amendments of 1996.

The District is an independent government and taxing body encompassing approximately 91% of the land and 98% of the assessed valuation of Cook County. The District is governed by a nine-member Board of Commissioners. Commissioners are elected at large and serve on a salaried part-time basis. Three Commissioners are elected every two years for six-year terms. The District's day-to-day operations are managed by the General Superintendent, who reports directly to the Board. Mr. Hugh H. McMillan is the General Superintendent, and served in this position from 1978 to 1983, and was reappointed to the same position in July 1995.

The main functions of the District are to keep sewage pollution out of Lake Michigan and the area's drinking water supply, to treat sewage to avoid contamination of the Chicago, Des Plaines, and Illinois Rivers, and to remove obstructions from those bodies of water. In addition, the District has the responsibility of providing adequate facilities to handle storm water run-off within the area under its jurisdiction. It exercises no direct control over local sewer systems. It does, however, provide the main trunk lines for the collection of sewage from local systems together with the treatment and disposal thereof. The District is supported by direct taxation and user charges, and may issue bonds for permanent improvements.

The following table summarizes the number of employees of the District at December 31, 1997, 1996 and 1995:

	<b>1997</b>	<b>1996</b>	<b>1995</b>
Research & Development	325	329	346
Maintenance & Operations	1,108	1,111	1,170
Engineering	236	247	265
Purchasing	69	69	70
Law	39	37	35
Finance	41	37	37
Personnel	39	40	51
Information Technology	58	54	41
General Administration	114	109	111
Treasury	7	7	7
Board of Commissioners	32	30	34
<b>TOTAL</b>	<b>2,068</b>	<b>2,070</b>	<b>2,167</b>

### **Financial Statements**

Appendix A presents a summary of the District's balance sheet as of December 31, 1997 and 1996. As of December 31, 1997 the balance sheet stood at \$8.5 billion, and as of December 31, 1996 the balance sheet stood at \$8.29 billion. General fixed assets account for over one-half of the District's balance sheet. The increase of \$119 million in 1997 in general fixed assets is due mainly to improvements in construction sewer systems, flood control, and buildings. The District's pension plan investments on the balance sheet increased by \$109 million in 1997 compared to 1996, due to the increase in the market value of the investments accounts.

Appendix B summarizes the various revenues available to the District. Revenues totaled \$493.3 million in 1997 compared to \$499.3 million in 1996. Government grants for Capital Projects decreased almost \$16 million. Revenues from property taxes constitute almost 69% of the District's revenues. Appendix C summarizes the expenditures of the District for 1997 and 1996, \$511,318,000 and \$553,156,000 respectively. Maintenance and operations, including employees' costs, total 27.3% of the District's expenditures. Expenditures for Capital Projects decreased \$55.9 million from 1996 to 1997.

### **Fixed Assets**

A schedule of the District's fixed assets is presented in Appendix D. As of December 31, 1997 general fixed assets totaled \$5.14 billion. Fixed assets additions during 1997 amounted to \$123.3 million, with deductions totaling \$4.4 million.

### **Accountants' Findings and Recommendations**

Condensed below are the four findings and recommendations presented in the audit report. One of the four recommendations is repeated from prior audits. The following recommendations are classified on the basis of information provided by Hugh H. McMillan, General Superintendent, in a letter dated April 16, 1999.

#### **Not Accepted**

- 4. Restructure the Audit Committee to make the group more independent. The Internal Audit Department should report directly to the General Superintendent. Internal Audit should be evaluating the District's systems and processes and determining which areas require auditing based on its own understanding of the District's operations and processes, rather than relying on suggested areas from Department Heads.**

**Findings:** The District's Audit Committee is comprised of the General Superintendent, Deputy Chief Engineer assigned to General Administration, Administrative Services Manager, Budget Officer, and the Director of Finance/Clerk. Several of these positions are not independent of District operations. Good business practice for large organizations require that an Audit Committee be comprised of a small group of individuals independent of the District's operations, (i.e. Commissioners, or Business leaders). The Audit Committee should attempt to exclude the District's operational personnel and should meet regularly with the Internal Audit Department. The District is not required by law to establish an independent committee, but independence improves the ability of the internal audit function to be effective by reducing the operational managers' influence on the work of the internal auditor.

**Response:** The Internal Audit function was instituted by the District voluntarily, well before the Audit Committee structure began to appear in other governments. This finding, in our opinion, demonstrates a philosophical difference between the Auditor and the District rather than one of compliance. The Audit Committee reflects the Board-approved and statutorily defined management and oversight responsibilities of the General Superintendent. Senior executives of the District who have a broad understanding of District operations, with the concurrence of the General Superintendent, can effect full implementation of any audit recommendations. There is a formally adopted Internal Audit Charter and an annually updated two-year work plan to assure compliance with this charter. Department Heads are invited to recommend additional audit subjects. The resources of three full-time professional auditors are devoted to internal auditing. The Internal Audit Charter guarantees their independence by establishing direct access to the General Superintendent.

**Partially Accepted**

- 1. Update and review updates to the fixed asset system and the Moveable Equipment Listing. The District could perform more physical inventories during the year to identify disposals and transfers.**

**Findings:** Asset disposals and transfers were not being updated to the fixed asset system or the Moveable Equipment Listing in a timely manner. Four of five assets selected for testing could not be traced to the Listing and none of the assets could be located initially. (The District was later able to account for all five assets.) Performing physical inventories becomes very difficult without appropriate location updates. If an accurate and complete Moveable Equipment Listing is not properly maintained, detecting and preventing theft becomes more difficult. Inaccurately reported assets may result in unneeded or inappropriate purchases.

**Response:** The District agrees with all points of the recommendation except for the suggestion to perform more physical inventories. All moveable fixed assets are physically inventoried biennially, which the District believes to be cost effective. The District will continue to improve its fixed asset and moveable equipment systems and procedures.

**Accepted**

- 2. Change passwords for all terminated employees and review security profiles to ensure that all terminated employee access has been removed from all computer environments. (Repeated-1996)**

**Findings:** Several terminated employees continued to have access to the computer environment because their respective passwords had not been changed upon termination. These accounts are kept active because they contain data and programs required by others for on going operations.

**Response:** Terminated employees are not allowed to physically access the building where they would be able to use a computer terminal. The User ID is retained on some accounts, but the password is changed. A speedier transfer of data on such accounts is desirable.

- 3. Perform and review bank reconciliations on a timely basis.**

**Findings:** The clearing account reconciliation for April 1997 was not documented as having been performed until July 1997.

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**Response:** We agree that reconciliations should be done on a timely basis. Clearing accounts are used only for wire transfers, and because they are monitored and balanced daily by the District's Treasury Section, any error would be immediately detected and resolved.

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**APPENDIX A**

**Combined Balance Sheet**

<b><u>Assets</u></b>	<b><u>1997</u></b>	<b><u>1996</u></b>
Pension Plan investments	\$ 917,864,000	\$ 808,552,000
Marketable Securities	694,598,000	676,028,000
Receivables:		
Property taxes	380,068,000	392,160,000
Less allowance for uncollectible taxes	(29,438,000)	(27,455,000)
Personal property replacement tax	26,999,000	24,001,000
User fees	3,016,000	4,017,000
Miscellaneous receivables	17,774,000	23,133,000
Inventories	10,107,000	10,315,000
General fixed assets	5,148,650,000	5,029,672,000
Amount available for bond redemption	186,562,000	179,134,000
Amount to be provided for bond redemption	1,032,054,000	1,059,168,000
Other	115,776,000	111,386,000
<b>Total Assets</b>	<b>\$ 8,504,030,000</b>	<b>\$ 8,290,111,000</b>
<b><u>Liabilities, Equity &amp; Other Credits</u></b>		
Deferred tax revenue	318,349,000	327,320,000
Accounts payable	44,609,000	51,313,000
Bonds payable	1,218,616,000	1,238,302,000
Investment in general fixed assets	5,148,650,000	5,029,672,000
Miscellaneous	138,061,000	135,427,000
Fund balances:		
Reserved for Retirement Fund	935,443,000	815,821,000
Reserved for Inventories	10,107,000	10,315,000
Undesignated	651,127,000	643,388,000
Unreserved	39,068,000	38,553,000
<b>Total Liabilities, Equity &amp; Other Credits</b>	<b>\$ 8,504,030,000</b>	<b>\$ 8,290,111,000</b>

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**APPENDIX B**

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**Comparative Revenue Schedule**

	<b><u>1997</u></b>	<b><u>1996</u></b>
<b><u>All Funds</u></b>		
Property taxes	\$ 339,698,000	\$ 337,341,000
Personal property replacement tax	<u>26,500</u>	<u>23,867,000</u>
Total Tax Revenue	<u>366,198,000</u>	<u>361,208,000</u>
Government Grants	16,761,000	32,633,000
User charges	52,629,000	52,741,000
Land rental	2,970,000	3,196,000
Interest on investments	39,026,000	38,526,000
Premium and accrued interest on sale of bonds	2,023,000	-
Tax increment financing distributions	459,000	370,000
Miscellaneous	<u>13,324,000</u>	<u>10,598,000</u>
<b>Total Revenues</b>	<b><u>\$ 493,390,000</u></b>	<b><u>\$ 499,272,000</u></b>

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**APPENDIX C**

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**Comparative Expenditure Schedule**

	<b><u>1997</u></b>	<b><u>1996</u></b>
<b><u>Expenditures:</u></b>		
Debt Service		
Redemption of bonds	80,653,000	72,160,000
Interest on bonds	69,477,000	73,342,000
Operating		
Board of Commissioners	2,414,000	2,320,000
General Administration	9,848,000	9,541,000
Research and Development	19,581,000	19,341,000
Purchasing	7,230,000	6,062,000
Personnel	18,050,000	19,394,000
Information Technology	6,600,000	4,792,000
Law	3,487,000	3,387,000
Finance	6,220,000	4,886,000
Engineering	2,860,000	2,937,000
Maintenance and Operations	139,943,000	136,887,000
Pension Costs	22,786,000	22,655,000
Claims and Judgements	3,772,000	1,219,000
Capital Outlay	118,397,000	174,233,000
<b>Total Expenditures</b>	<b><u>\$ 511,318,000.00</u></b>	<b><u>\$ 553,156,000.00</u></b>

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**APPENDIX D**

**General Fixed Assets**

<b><u>General Fixed Assets:</u></b>	<b><u>1997</u></b>	<b><u>1996</u></b>
Sewer systems	\$ 2,563,629,000	\$ 2,491,766,000
Sewage treatment works	1,793,907,000	1,749,538,000
Rivers and channels	149,433,000	148,850,000
Pumping stations	336,860,000	332,520,000
Flood control systems	167,675,000	167,562,000
Land reclamation sites	52,271,000	52,249,000
Office buildings	41,012,000	45,382,000
Hydraulic measurements & other	43,863,000	41,805,000
<b>Total</b>	<b><u>\$ 5,148,650,000</u></b>	<b><u>\$ 5,029,672,000</u></b>
 <b><u>Assets by Source:</u></b>		
Capital Projects Fund	\$ 2,587,934,000	\$ 2,512,100,000
Government grants	2,064,928,000	2,048,167,000
State Revolving Fund	182,505,000	154,557,000
General Corporate Fund	146,436,000	137,599,000
Acquired prior to 1937	255,466,000	255,466,000
Subtotal	<u>5,237,269,000</u>	<u>5,107,889,000</u>
Less estimated cost of retirements	<u>(88,619,000)</u>	<u>(78,217,000)</u>
<b>Total</b>	<b><u>\$ 5,148,650,000</u></b>	<b><u>\$ 5,029,672,000</u></b>